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Voluntary Public

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Poultry and Products Voluntary Report

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Poultry and Products

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Report Highlights:

Total broiler production for 2010 amounted to 969 million broilers or 1.3 million tons of meat, four percent more than the 931 million broilers or 1.25 million tons of meat produced in 2009. In 2011, broiler production is expected to reach 980 million broilers or 1.315 million tons of meat, representing a one percent increase from 2010. On the back of an increase in the value of the South African Rand, broiler meat imports increased in 2010 by 17 percent to 240,182 tons or US\$210 million. The Rand remained strong through 2011 and broiler meat imports are expected to reach 300,000 tons at the end of 2011. Although Brazil is the leading supplier of poultry meat to South Africa, the South African poultry industry has requested anti-dumping duties against Brazil be introduced. The current five-year anti-dumping duty on chicken meat portions imported from the United States expires in November 2011, but a Sunset Review has been initiated and it is expected that the protection will continue until the Sunset Review is complete.

General Information: Executive Summary

The South African poultry meat industry, with a gross value of more than R23 billion (\$3.2 billion), is the country's largest individual agricultural industry and contributes almost 18 percent to Agriculture's Gross Domestic Product. Since 2000, broiler production in South Africa grew by an average of four percent per annum. The broiler industry on average produced 18.6 million broilers per week in 2010. This was four percent more than the 17.8 million broilers per week produced in 2009. Total broiler production for 2010 amounted to 969 million broilers or 1.3 million tons of meat. In 2011, growth is expected to slow to a 1.1 percent increase in broiler production on the back of high feed prices and a relative strong rand which supports imports. Average weekly broiler production is expected to increase to 18.7 million, while total birds slaughtered in 2011 are expected to reach 980 million broilers or 1.315 million tons of meat.

In 2010, broiler meat demand increased by almost four percent in-line with positive economic growth in South Africa. The South African per capita consumption of broiler meat in 2010 was 32 kg. Post expects that broiler meat demand will increase by about five percent in 2011 as the South African economy is expected to show steady growth.

Broiler meat imports into South Africa are primarily exchange rate driven. Broiler meat imports increased in 2010 by 17 percent to reach 240,182 tons or US\$210 million. Imports of broiler meat accelerated in 2010 with a 15 percent increase in the value of the Rand to an average of R7.32/US\$ compared to the R8.43/US\$ in 2009. The strong Rand is continuing through 2011 and broiler meat imports are expected to reach almost 300,000 tons in 2011 or 20 percent of local production. Brazil is the leading supplier of broiler meat to South Africa, having more than 74 percent of the import market. However, the South African poultry industry requested that anti-dumping duties against Brazil be introduced. The International Trade Administration Commission (ITAC) agreed to investigate the imports of Brazilian whole birds and boneless cuts. The preliminary findings will likely be issued in the first few months of 2012 by ITAC. The South African Poultry Industry remains confident that anti-dumping actions against Brazil will be introduced. The current 5-year anti-dumping duty on chicken meat portions imported from the United States expires in November 2011, but as a Sunset Review has been initiated and the protections will continue until such time as the Sunset Review is complete.

US\$1 = Rand 7.40 (9/15/2011)

Production:

The South African poultry meat industry, with a gross value of more than R23 billion (\$3 billion), is the country's largest individual agricultural industry and is contributing almost 18 percent to Agriculture's Gross Domestic Product. Broiler production makes up most of the poultry industry. Although South Africa produces less than 1.5 percent of the world's broiler meat it is the major broiler producer, with almost 80 percent of total broiler production, in the Southern African Development Community (SADC). Since 2000, broiler production in South Africa grew by an average of four percent per annum. However, in 2009 the growth rate slowed to less than one percent as a result of high commodity prices, which resulted in high feed prices, and was followed by the worldwide economic recession, characterized by high inflation, high interest rates, a slow down in consumer demand, and job losses. Fortunately, the South African economy recovered in 2010 from the recession and domestic demand for poultry products increased again. As a result the productions of broilers meat increased by four percent in 2010.

On average, the broiler industry produced 18.6 million broilers per week in 2010. This was 716,000 broilers per week or four percent more than the 17.8 million broilers produced in 2009. Total broiler production for 2010 amounted to 969 million broilers or 1.3 million tons of meat (see also Figure 1). Total broiler production in 2010 was four percent more than the 931 million broilers or 1.25 million tons of meat produced in 2009.

In 2011, only a 1.1 percent increase in broiler production is foreseen as feed prices remain high and the relative strong rand/dollar exchange rate which support imports. The average weekly broiler production is expected to increase to 18.7 million, while total birds slaughtered in 2011 is expected to reach 980 million broilers or 1.315 million tons of meat.

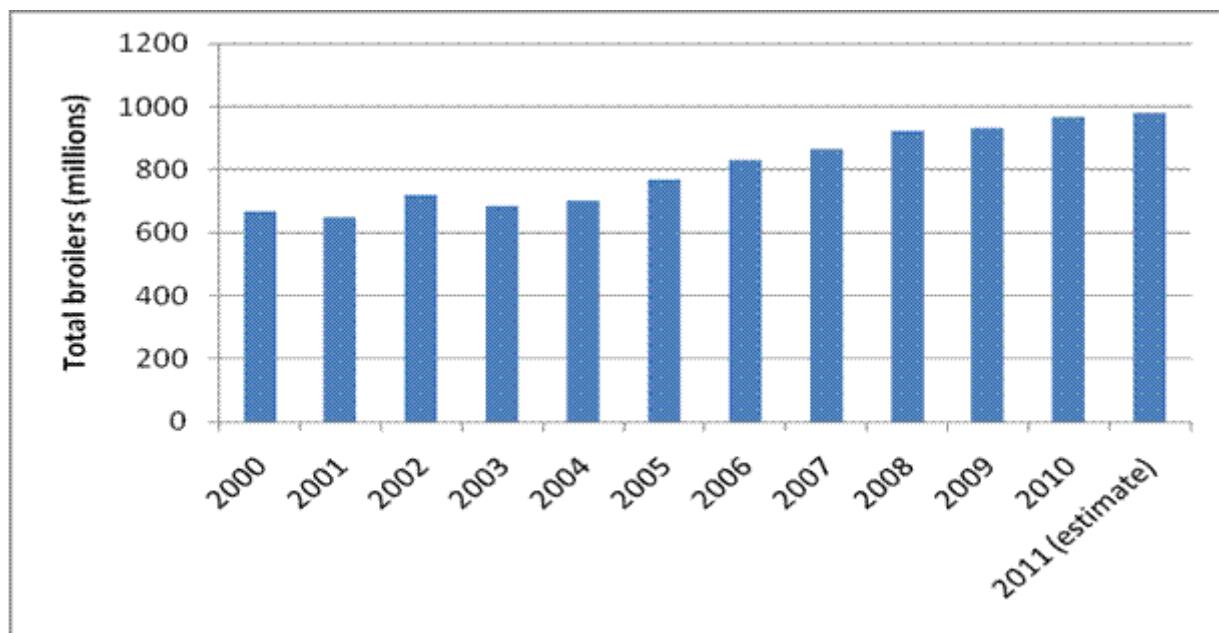


Figure 1: Total broilers slaughtered per annum in South Africa

Structure: The broiler industry in South Africa is dominated by two large producers, namely Rainbow and Astral (see also Figure 2). Together, these two companies produce 46 percent of total broiler production in South Africa. Rainbow, on average, produces 4.4 million broilers per week and Astral, on

average, 4 million broilers per week. The third largest producer, Country Bird, produces 1.3 million broilers per week or seven percent of total broiler production in South Africa. Country Bird is followed by four medium-sized producers (producing more than 800,000 broilers per week) that supply 20 percent of the market. These seven companies provide 73 percent of the broilers, while hundreds of smaller producers supply the balance. A degree of consolidation has taken place in recent years, with bigger players buying up some of the smaller producers.

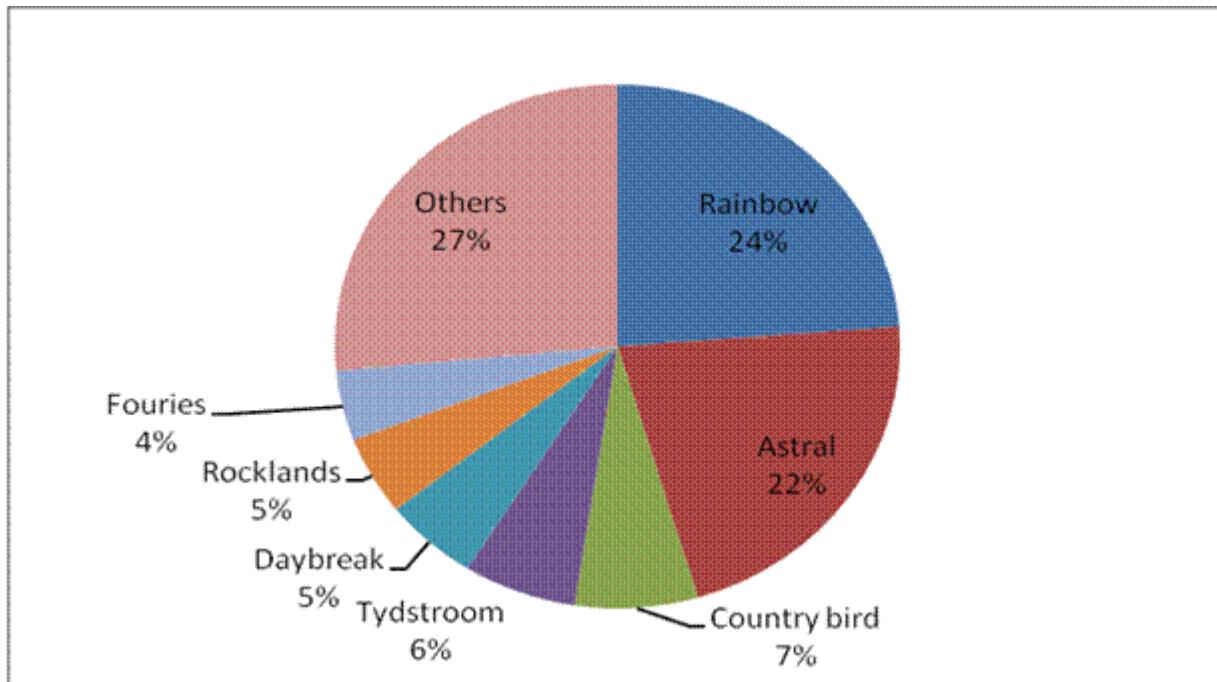


Figure 2: The major producers in the boiler industry of South Africa

Feed cost: Feed cost is one of the major cost factors in the broiler industry. The broiler industry suffered dramatic feed price increases in 2008 (from R2,648 per ton to R3,502/ton or a 32 percent increase), due to the significant increase in the prices of corn and soybeans, the main raw materials in broiler feed. In 2009, feed prices decreased to an average price of R3,326/ton, but were still significantly higher than historical levels. The increases in feed cost prices were not recovered by sales realization, putting the profit margin of companies in the broiler industry under severe pressure. However, with the second largest corn crop ever recorded in South Africa and a record soya bean crop, the average broiler feed price decreased in 2010 to R3,000/ton. This represented a decrease of 10 percent compared to 2009.

Corn is the major ingredient (more than 50 percent) in broiler feed and any change in the price of corn directly impacts the profit margin of broiler producers. The poultry industry consumes approximately 2.8 million tons of corn (mainly yellow corn) or 30 percent of total corn consumption in South Africa on an annual basis. Another important product in the 3.96 million tons of feed (72 percent of all feed manufactured in South Africa annually) consumed by the poultry industry is soya meal which is mainly imported from Argentina.

Animal health and diseases: The broiler industry in South Africa has become largely resilient in disease situations. The past few years have seen a large emphasis on precautionary measures, disease surveillance, and control in the South African broiler industry. The aim is to reduce the incidence of animal disease and minimize the impact of outbreaks when they do occur. The South African poultry industry also funded a long-term disease-reduction program which is in the final planning and approval stages and should be rolled out during the next three years.

The spread of avian influenza elsewhere in the world remains of great concern for South African poultry producers and they remain on high alert, as the threat of avian influenza also has the potential to reduce consumer demand. A routine surveillance program for Notifiable Avian Influenza using a protocol in line with OIE guidelines is in place since 2005. According to the protocol, all commercial ostriches and chickens as well as non-commercial chickens are sampled and tested on a six-monthly basis for both the H5 and H7 Avian Influenza subtypes. The April 2011 outbreak of highly pathogenic avian influenza in ostriches in the Southern Cape was successfully eradicated with the slaughtering of thousands of ostriches. However, no detections have occurred in broiler production.

Newcastle Disease remains virulent for the fourth year of constant occurrences. The spread of Newcastle disease can be largely attributed to a lack of bio-security and is linked to the commercial egg-layer industry, where the disease has been far more catastrophic.

Production efficiency: Improved animal husbandry, stricter disease control, and production efficiencies (see Table 1 and Figure 3) have contributed to lower chicken mortality rates in the industry over the past three to four years. Foreign as well as local authorities ensure high sanitary standards in the South African poultry production industry. Local broiler producers also rely exclusively on the best internationally developed strains from the United Kingdom, the United States and the Netherlands.

Table 1: Increased production efficiencies in the South Africa poultry industry

	1968	1998	2004	2010
Slaughter age (days)	62	42	38	35
Live mass (kg)	1.18	1.79	1.82	1.85

Source: SAPA

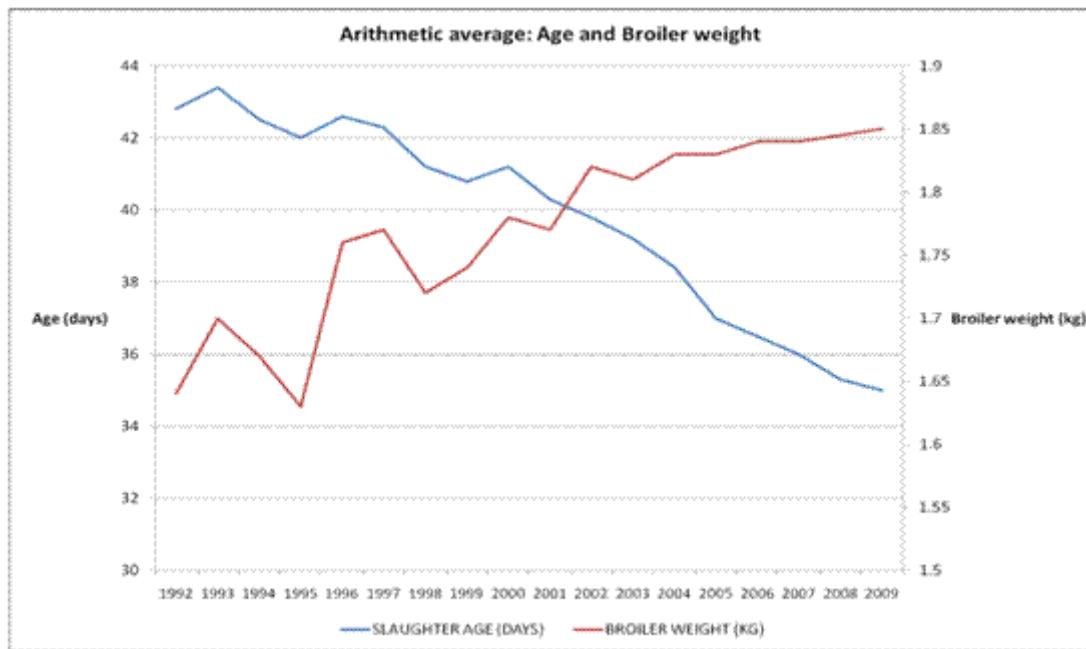


Figure 3: The trends in slaughter age and broiler weight since 1992 in South Africa

Consumption:

The growing demand (in the region of six percent per annum) for broiler meat that enjoyed from 2000 to 2008, did not continue through to 2009. As already mentioned, the high interest and inflation rates impacted negatively on consumers' spending ability. However, in 2010 broiler meat demand increased again by almost four percent on the back of the recovery in the economy and the fact that broiler meat remains one of the most affordable protein source relative to other meat protein sources in South Africa. The South African per capita consumption of broiler meat in 2010 was 32 kg. In comparison, each South African consumed only 3.2 kg of mutton, 4.6 kg of pork, and 17.7 kg of beef in 2010. The trends in total per capita consumption of meat in South Africa are illustrated in the table below. South Africans now eat more than double as much broiler meat as in the 1993.

Table 2: Per capita consumption (kg) of meat in South Africa

Years	Beef	Broiler meat	Pork	Mutton/lamb
1993	18.6	14.4	3.5	4.9
1994	16.9	16.2	3.2	4.0
1995	14.7	17.6	3.2	3.0
1996	14.6	17.8	3.3	3.5
1997	13.9	19.4	3.3	3.4
1998	13.3	18.6	3.2	3.4
1999	13.0	19.7	3.0	3.6
2000	15.2	19.7	3.1	3.7
2001	12.3	18.9	2.6	3.5
2002	13.3	20.1	2.7	3.2
2003	14.0	21.1	3.2	3.2
2004	14.5	21.7	3.8	3.3
2005	15.5	23.1	3.9	3.2
2006	17.4	25.8	4.1	3.4
2007	18.2	29.6	4.4	3.9
2008	16.4	30.0	4.2	3.7
2009	16.7	30.8	4.1	3.7
2010	17.7	32.0	4.6	3.2
2011 (estimate)	18.0	33.0	4.6	3.0

Source: Department of Agriculture

Except for supplying the market with a protein source at a very competitive price, the rise in broiler meat consumption the past few years can also be attributed to the industry's response to the needs of consumers and food services operators for value-added, brand name and convenience products.

Post expects that broiler meat demand will increase by about five percent in 2011 as the South African economy is expected to grow by more than three percent. Economic growth is the main driver for increased broiler meat demand as rising living standards lead to increased consumption of affordable protein. Furthermore, future opportunities for growth in the broiler meat market exist as South Africa's per capita consumption of broiler meat is still relative low compared with other economies in the world. For example, the United States per capita consumption of chicken was 43 kg in 2010.

Trade:

Imports: Broiler meat imports into South Africa are primarily exchange rate driven as can be seen from Figure 4. When the Rand appreciates against the United States dollar, imports of broiler meat increases (as meat imports become cheaper). When the Rand depreciates against the United States dollar, imports of broiler meat decreases.

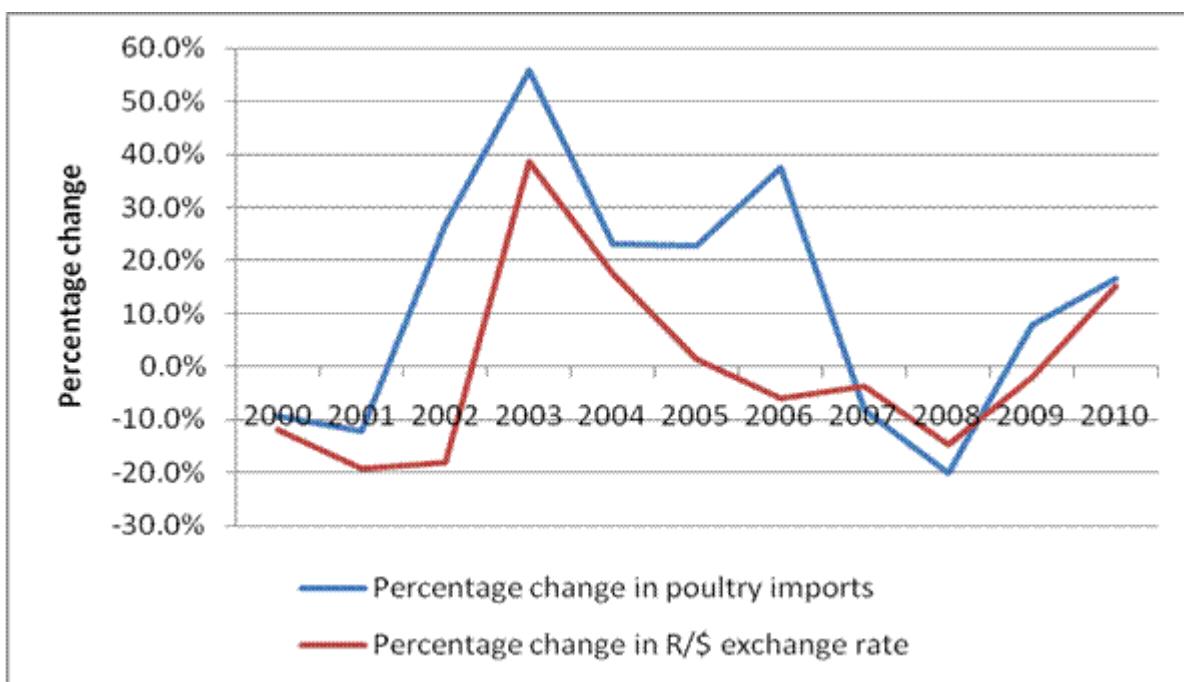


Figure 4: The positive correlation between broiler meat imports and R/US\$ exchange rate

Annual poultry imports for 2010 were 265,791 tons, which is 15 percent more than 231,303 tons poultry meat imported in 2009. Broiler meat accounts for 91 percent of all poultry imports, the balance largely being turkey products. Broiler meat imports increased in 2010 by 17 percent to reach 240,182 tons or US\$210 million (see also Figure 5). The 2010 increase in imports was driven by a 15 percent increase in the value of the Rand to an average of R7.32/US\$ compared to the R8.43/US\$ in 2009. The strong Rand continued into 2011 and broiler meat imports until July 2011 at 181,554 tons, which is 30 percent higher than the same period in 2010. Broiler meat imports are expected to reach almost 300,000 tons in 2011 or 20 percent of local production.

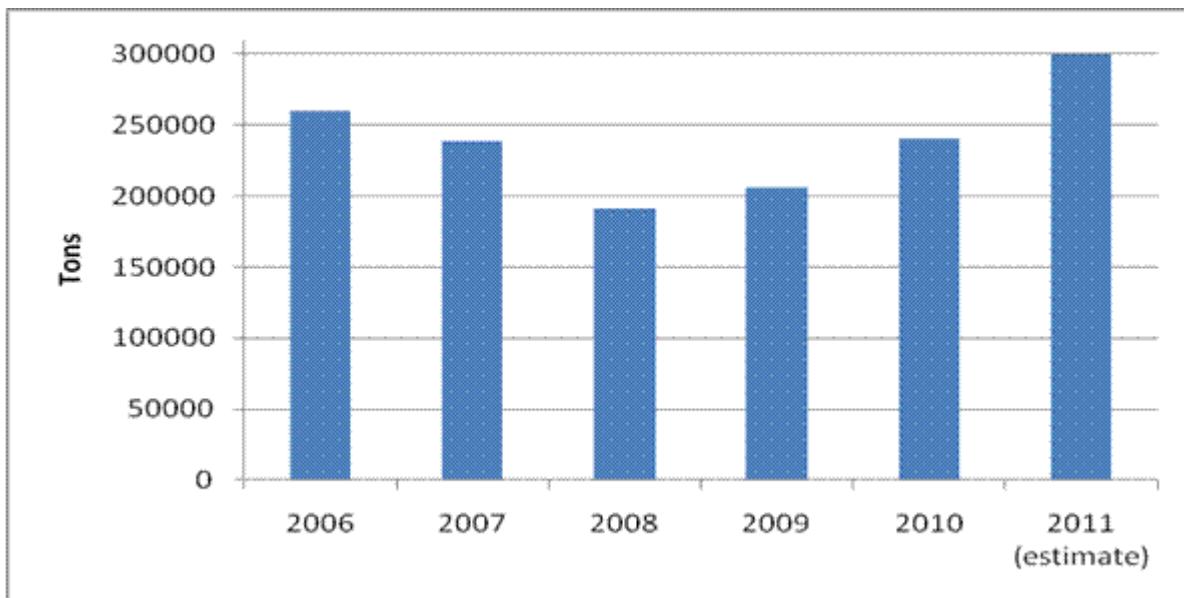


Figure 5: Imports of broiler meat by South Africa

Brazil is the leading supplier of broiler meat to South Africa, having more than 74 percent (178,191 tons) of the import market (see Figure 6). Brazil is followed by Argentina, with 11 percent (27,340 tons), Canada with 6 percent (14,737 tons) and the United Kingdom with 3 percent (6,318 tons) of the import market. Broiler meat imports from the United States in 2010 reached 3,278 tons or just more than one percent of total imports.

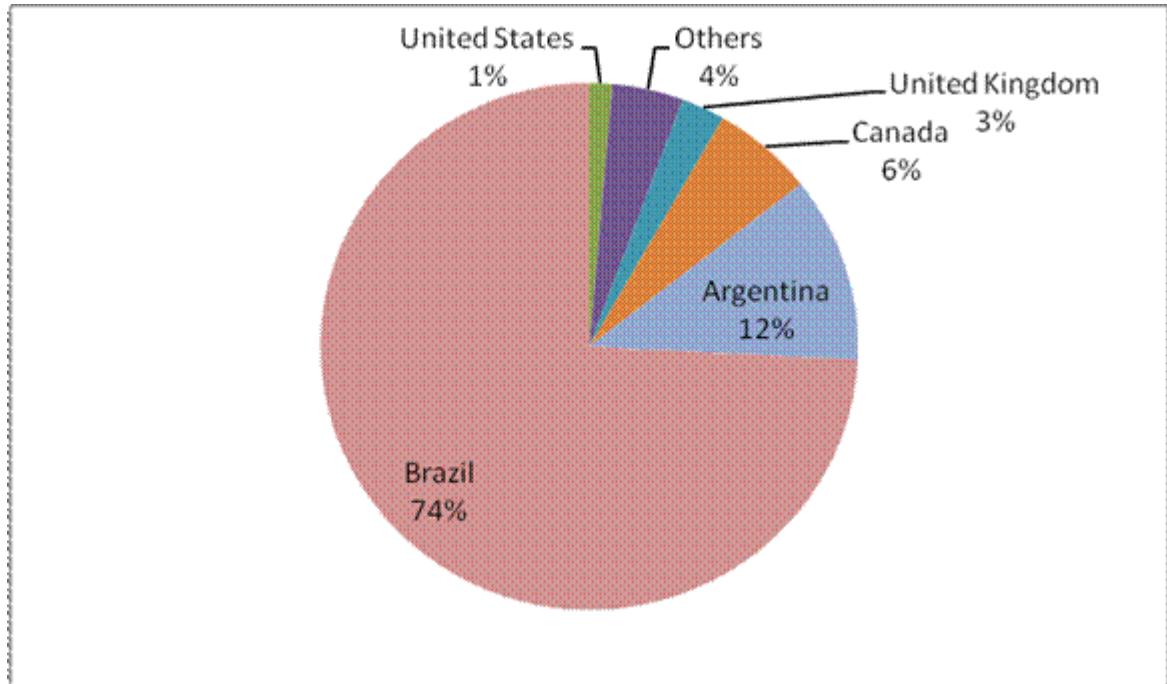


Figure 6: Origin of broiler meat imports into South Africa in 2010

Figure 7 illustrates the percentage contribution of specific broiler meat products that have been imported in 2010. In volume, “mechanically deboned meat” represents the largest category of broiler meat imports, namely 42 percent or 101,328 tons. In value, imports of “mechanically deboned meat” were worth US\$43 million in 2010 or 20 percent of the total value of broiler meat imports.

The second largest category in volume of broiler meat imports consisted of “frozen bone-in portions”. “Frozen bone-in portions” represent 32 percent or 76,852 tons of broiler meat imports at a value of \$US92 million. In value, the imports of “frozen bone-in portions” represent 44 percent of total broiler meat imports. Leg quarters are bone-in portions and falls under this heading.

“Frozen boneless portions’ constituted 21 percent or US\$44 million to the value of total broiler meat imports in 2010. By volume it represents nine percent of total broiler meat imports. The other categories “whole frozen chicken” and “frozen offal” represents nine percent and eight percent to the total volume of broiler meat imports respectively, but are relatively small in value with a combined value of about US\$30 million.

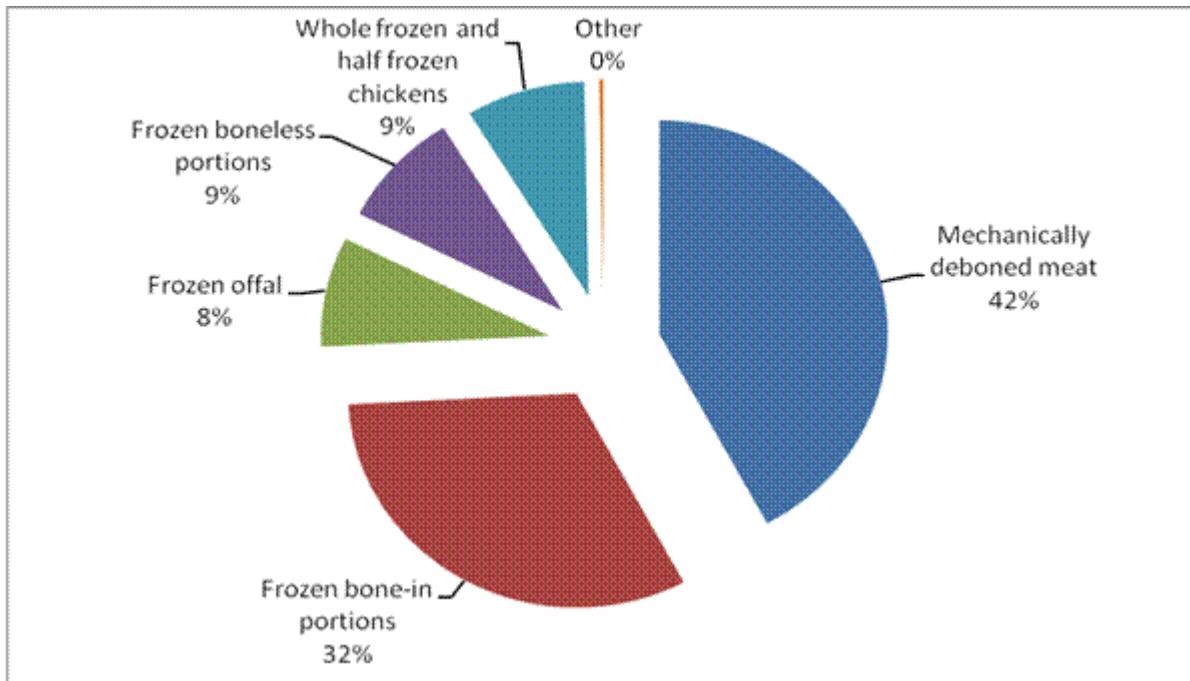


Figure 7: The distribution of broiler imports for 2010

Exports: South Africa exported 16,446 tons of broiler meat in 2010, 30 percent more than the 12,651 tons exported in 2009. The value of these exports was US\$36 million. In 2010, Zimbabwe was South Africa's major export market with 11,045 tons, representing almost 70 percent of exports. Zimbabwe was followed by Mozambique with almost 24 percent or 3,862 tons of exports. So far this year South Africa's exports of broiler meat dropped by almost 40 percent as Zimbabwe introduced import restriction, due to the recent outbreak of highly pathogenic avian influenza in ostriches in the Western Cape. It is, however, expected that exports will still reach 10,000 tons in 2011.

Anti-dumping duties: An anti-dumping duty against the United States for poultry products in tariff number 0207 14 90 (bone in cuts, include the chicken leg quarters) was instituted in 2000 for 5 years, reducing United States imports from more than 31,000 tons in 1999 to only 344kg in 2005. Anti-dumping tariffs, ranging from R2,24/kg to R6,96/kg are currently imposed in addition to an import duty of R2,20/kg, effectively pricing US chicken pieces out of the local market (the anti-dumping duty on product from Tyson Foods is R2,24kg, from Gold Kist Inc. it is R2,45/kg and R6,96/kg from any other United States producers). United States poultry exporters applied to have the anti-dumping ruling reviewed in 2005, but the South African Poultry Industry opposed the application and the anti-dumping duty was extended to 2011. However, in 2007, the South African Supreme Court of Appeal found that International Trade Administration Commission (ITAC) had improperly calculated the timetable for doing an anti-dumping sunset reviews under South African law for a separate case. However, the ruling is applicable on more than 70 products, including United States poultry. This meant that anti-dumping duties on "bone in chicken portions" from the United States can be declared unlawful due to the legal sunset review not being performed timely.

ITAC has launched an application to address the consequences of the ruling, which would determine whether the ruling should extend to other industries and request for the continuing of anti-dumping duties called into question after the Supreme Court of Appeal opinion in 2007. The case was heard at

the end of April 2011. The parties involved were the South African government, the Southern Africa Poultry Association, the Association of meat Importers and Exporters (AMIE) and a retailer Shoprite Checkers. No decision has been made by the court yet. It is also expected that this case could drag for many years as at least one of the four parties involved would appeal the outcome.

In August, AMIE also unsuccessfully attempted to interdict ITAC to stop them from initiating the current Sunset Review. The South African poultry industries current round of production is due to expire in October this year but as a Sunset Review has been initiated the protection will continue until such time as the Sunset Review is complete. The South African Poultry Industry has applied for the extension of the United States anti-dumping protection. The next step in the Sunset Review is for ITAC to receive comments by all the stakeholders involved in this matter. Within six months from verifying all the information, ITAC is likely to issue a preliminary finding on whether the anti-dumping duty on United Stated poultry imports should continue or not. The South African Poultry Industry's view regarding the anti-dumping duty against United States poultry imports is clear and they are confident that the protection will continue.

The South African Poultry Industry is also making progress with their investigation into Brazilian trade practices regarding poultry imports to South Africa. ITAC has, at this stage, agreed to investigate the imports of Brazilian whole birds and boneless cuts. The preliminary findings will most probably be issued in the first few months of 2012 by ITAC. The South African Poultry Industry remains confident that anti-dumping action against Brazil is likely to be introduced.

Production, Supply and Demand Data Statistics :

PS&D Table

